

Message Text

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PAGE 01 LONDON 06285 01 OF 03 251817Z

46

ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 NEA-09 AGR-10 AID-05 CIAE-00

EB-07 FRB-01 INR-07 NSAE-00 TRSE-00 XMB-04 OPIC-06

SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-04 CEA-01 L-02 H-02 PRS-01 PA-02 USIA-15 /129 W

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R 251755Z APR 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 0553

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

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AMCONSUL BELFAST

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USDOC WASHDC

UNCLAS SECTION 01 OF 03 LONDON 06285

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652:N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING APRIL 25

BEGIN SUMMARY: THE BRITISH ECONOMY CONTINUES ITS DOWN-
WARD SLIDE, AND THE INCLINE APPEARS TO HAVE STEEPENED

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PAGE 02 LONDON 06285 01 OF 03 251817Z

SLIGHTLY. UNEMPLOYMENT ROSE SHARPLY IN MID-APRIL, AND THE

TREND MAY BE ACCELERATING. MONETARY GROWTH IS STILL SLUGGISH, AND INTEREST RATES KEEP FALLING. RETAIL SALES SHOW A WEAKENING TREND ALSO. AT THE SAME TIME, PRICES AND WAGES SHOW NO SIGN OF MODERATING THEIR RAPID RISE. BRITISH LEYLAND, THE MAJOR UK AUTO PRODUCER, WILL PROBABLY BE TAKEN OVER BY THE GOVERNMENT IN AN EFFORT TO PRESERVE THE TOTTERING COMPANY. A GOVERNMENT REPORT RECOMMENDS MASSIVE CAPITAL INJECTIONS AND RATIONALIZATION TO PROMOTE EFFICIENCY; THE REPORT FORESEES MAJORITY PARTICIPATION BY THE GOVERNMENT. THE INVESTMENT DOLLAR PREMIUM ROSE TO RECORD LEVELS AS DEMAND OUTSTRIPPED SUPPLY. IN WHAT MAY BE CHARACTERIZED AS A COMBINATION OF UNCERTAINTY OVER GOVERNMENTAL EXCHANGE RATE POLICY AND TECHNICAL MARKET FACTORS, STERLING CONTINUED ITS DOWNWARD SLIDE. END

1. UNEMPLOYMENT. THE NUMBER OF UNEMPLOYED IN THE UK ROSE DRAMATICALLY IN MID-APRIL. A TOTAL OF 939,000 ARE NOW REGISTERED AS UNEMPLOYED (ABOUT 4 PERCENT) BUT THIS INCLUDES MANY ADULT STUDENTS ON VACATION. SEASONALLY ADJUSTED, UNEMPLOYMENT NOW STANDS AT 3.4 PERCENT, ABOUT 795,000 REGISTERED AS TOTALLY OUT OF WORK. THIS IS A RISE FROM 3.2 PERCENT LAST MONTH. UNFILLED VACANCIES FELL BY OVER 13,000 IN THE PERIOD TO MID-APRIL AND ABOUT 225,000 ARE ON SHORT-TIME WORKING. (SEE SEPTTEL FOR DETAILS.)

2. INTERVENTION IN INDUSTRY. AFTER MUCH SPECULATION, THE EXPURGATED GOVERNMENT REPORT ON REFORM OF AILING BRITISH LEYLAND, THE MAJOR UK AUTO PRODUCER, HAS BEEN RELEASED. THE REPORT RECOMMENDS MASSIVE GOVERNMENT INTERVENTION AND FINANCIAL SUPPORT (500 MILLION POUNDS OVER THE NEXT 3 YEARS OUT OF GOVERNMENT GENERAL REVENUES AS WELL AS GOVERNMENT PURCHASE OF COMPANY STOCK) AND FORESEES THE GOVERNMENT TAKING MAJORITY PARTICIPATION IN THE COMPANY. THE OBJECTIVES OF THE REFORM INCLUDE NEW AND RATIONALIZED MODEL RANGE, A REDUCED AND MORE EFFICIENT CORPORATE STRUCTURE, MODERNIZATION OF PRODUCTION FACILITIES, AND JOINT MANAGEMENT/UNION COUNCILS.

3. MONEY SUPPLY. THE BROADLY DEFINED MONEY SUPPLY (M3) CONTINUED ITS SLOW GROWTH IN THE PERIOD FEBRUARY 19 TO UNCLASSIFIED

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PAGE 03 LONDON 06285 01 OF 03 251817Z

MARCH 19. DURING THIS PERIOD M3 GREW BY 0.9 PERCENT, THE SAME RATE AS THE PREVIOUS PERIOD. OVER THE PAST 3 MONTHS M3 HAS INCREASED BY 2-1/4 PERCENT, OR AT AN ANNUAL RATE OF 9 PERCENT, WELL BELOW THE RATE OF INFLATION. M1, THE NARROWLY DEFINED MONEY SUPPLY, SHOWED A 2 PERCENT INCREASE IN THE LATEST PERIOD COMPARED TO A 1.1 PERCENT DECREASE IN THE PREVIOUS PERIOD. ITS GROWTH HAS BEEN ERRATIC LATELY, BUT HAS AVERAGED 4-3/4 PERCENT OVER THE LAST 3

MONTHS, OR JUST ABOUT EQUAL (AT 20 PERCENT) TO THE RATE OF INFLATION.

4. INTEREST RATES. BARCLAYS BANK REDUCED ITS BASE LENDING RATE TO 9-1/2 PERCENT, A CUT OF 3/4 OF A PERCENTAGE POINT, SURPRISINGLY LARGE TO SOME OBSERVERS. THE MOVE WAS FOLLOWED BY OTHER MAJOR BANKS. BASE LENDING RATES HAVE NOW FALLEN FROM 12 PERCENT SINCE THE BEGINNING OF 1975. THE RATE PAID ON 7-DAY DEPOSITS HAS COME DOWN TO 6-1/4 PERCENT, A WIDENING OF DIFFERENTIAL BETWEEN BORROWING AND LENDING RATES. THE "PR/ME RATE- I.E. THE RATE PAID ON OVERDRAFTS BY MOST HIGHLY REGARDED BORROWERS IS NOW ABOUT 10-1/2 PERCENT.

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PAGE 01 LONDON 06285 02 OF 03 251820Z

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FM AMEMBASSY LONDON

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UNCLAS SECTION 02 OF 03 LONDON 06285

5. CORPORATE FINANCES. RECENT FIGURES REGARDING CORPORATE FINANCES IN THE SECOND HALF OF 1974 INDICATE AN EASING OF THE FINANCIAL SQUEEZE ON COMPANIES. OVER THE YEAR AS A WHOLE, THE COMPANY SECTOR SHOWED A FINANCIAL DEFICIT OF 3.6 BILLION POUNDS. IN THE SECOND HALF OF 1974, HOW-
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PAGE 02 LONDON 06285 02 OF 03 251820Z

EVER, COMPANY UNDISTRIBUTED INCOME NET OF INVENTORY APPRECIATION (BEFORE DEPRECIATION AND ADDITIONS TO RESERVES) GREW OVER THE SECOND HALF OF 1973 BY 9 PERCENT.

6. RETAIL SALES. THE INDEX FOR RETAIL SALES (1971 EQUALS 100, S.A.) FELL BY 1.6 PERCENT IN MARCH OVER FEBRUARY. THE MARCH NUMBER IS 110.5 (PROVISIONAL . AND LIKELY TO BE REVISED) WHILE THAT FOR FEBRUARY WAS 112.3. THE FIRST QUARTER OF 1975 INDEX SHOWS AN 0.5 PERCENT RISE OVER THAT OF THE FOURTH QUARTER OF 1974 (111.6/111.0). HEAVY PURCHASES AT THE JANUARY SALES INFLUENCED THE 1975:IQ FIGURES.

7. OUTPUT. PRELIMINARY FIGURES FOR THE FOURTH QUARTER OF 1974 INDICATE A 5 PERCENT DROP IN NEW ORDERS IN THE UK ENGINEERING INDUSTRY OVER THE PREVIOUS QUARTER.

8. THE INVESTMENT DOLLAR PREMIUM (DOLLARS PURCHASED FOR PORTFOLIO AND PROPERTY INVESTMENT) ROSE TO RECORD LEVELS AS DEMAND FAR OUTSTRIPPED THE SUPPLY OF THESE LIMITED FUNDS. BASED ON THE SMITHSONIAN PARITY RATE OF \$2.60 PER POUND STERLING, THE PREMIUM ROSE TO 109-1/2 PERCENT ON THURSDAY (APRIL 24). BASED ON A MARKET RATE OF \$2.3605 PER POUND STERLING, THE EFFECTIVE PREMIUM WAS 91-1/2 PERCENT WHICH, IN EFFECT MEANT THAT INVESTORS WERE WILLING TO PAY ALMOST DOUBLE THE QUOTED PRICE FOR PURCHASE OF EQUITIES IN THE AMERICAN MARKETS.

9. STERLING CONTINUES TO SHOW SIGNS OF WEAKENING BOTH AGAINST THE DOLLAR AND OTHER EUROPEAN CURRENCIES. AGAINST A BACKDROP OF DECLINING UK INTEREST RATES, THE MARKETS APPEARED TO BE (ACCORDING TO PRESS REPORTS) REACTING TO RECENT GOVERNMENT SUGGESTIONS THAT THE POUND WOULD BE

ALLOWED TO DEPRECIATE FURTHER IN ORDER TO AID UK EXPORTS.
IT WILL BE RECALLED THAT IN RECENT MONTHS, THE UK'S TERMS
OF TRADE HAS CONTINUALLY SHOWN MONTH-ON-MONTH IMPROVEMENT.
HOWEVER, THE IMPROVEMENT HAS RESULTED ALMOST EXCLUSIVELY
FROM EXPORT PRICE INCREASES RELATIVE TO IMPORT PRICES
WITH ONLY MINIMAL GAINS RESULTANT FROM RELATIVE VOLUME
INCREASES (EXCEPT FOR TECHNICAL ABERRATIONS).

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PAGE 03 LONDON 06285 02 OF 03 251820Z

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UNCLAS SECTION 03 OF 03 LONDON 06285

10. EXCHANGE RATE AND GOLD:

	4/17	4/24	CHANGE
EXCHANGE RATE	\$2.3705	\$2.3600	DOWN \$0.0105
EFFECTIVE DEPRECIATION			
(PERCENT)	22.0	22.5	WIDENED 0.5

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PAGE 02 LONDON 06285 03 OF 03 251825Z

GOLD	\$168.50	\$167.25	DOWN \$1.25
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11. FORWARD DISCOUNT ON STERLING:

	4/17	4/24	CHANGE
1 MONTH	0.82	1.10	UP 0.28
3 MONTHS	2.75	3.20	UP 0.45
6 MONTHS	5.75	6.20	UP 0.45

(ALL FIGURES IN CENTS)

12. EURODOLLAR INTEREST RATES:

	4/17	4/24	CHANGE
1 MONTH	6	6-1/4	UP 1/4
3 MONTHS	6-7/8	7	UP 1/8
6 MONTHS	7-7/8	8	UP 1/8

13. LOCAL AUTHORITY DEPOSIT RATES:

	4/17	4/24	CHANGE
1 MONTH	9-1/8	9-1/2	UP 3/8
3 MONTHS	9-9/16	9-5/8	UP 1/16
6 MONTHS	9-15/16	9-7/8	DOWN 1/16

14. THE MINIMUM LENDING RATE REMAINED UNCHANGED AT 9-3/4
PERCENT ON FRIDAY, APRIL 25, 1975

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